

DEPARTMENT OF DEFENSE BLOGGERS ROUNDTABLE WITH PAUL BRINKLEY, DEPUTY
UNDERSECRETARY OF DEFENSE FOR BUSINESS TRANSFORMATION VIA TELECONFERENCE FROM
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CHARLES "JACK" HOLT (chief, New Media Operations, OASD PA): This is
Jack. Who's joining us?

MR. BRINKLEY: Hi. This is Paul Brinkley calling from Baghdad.

MR. HOLT: Ah, yes, sir. Welcome aboard, sir.

MR. BRINKLEY: How's the connection? Am I coming through okay?

MR. HOLT: Yes, sir, coming through loud and clear. I think we're good
to go. We got quite a few folks on the line here this morning, and welcome to
the Bloggers Roundtable.

And appreciate you joining us this morning, Mr. Brinkley. Paul
Brinkley, deputy undersecretary of Defense for Business Transformation, with
us this morning. Sir, do you have an opening statement?

MR. BRINKLEY: Sure, I'll lead off.

For several months we've been engaged in an exercise here in Iraq to
restore employment through a variety of mechanisms. And I'll walk through those
and then take your questions.

First and foremost has been our efforts to essentially restart an idled
and neglected industrial base. Iraq prior to 2003 was widely regarded as having
one of the most skilled and educated workforces in the Middle East and possessed
over 200 factories that manufactured a variety of goods that under U.N.
sanctions formed the basis of much of the functioning economy of Iraq. They
weren't able to import a great deal of goods, and so their manufacturing sector
was critical to sustaining just daily life for the majority of the citizens of
the country. After 2003, these factories fell into a state of distress, and
most of our reconstruction efforts as a country emphasized the rebuilding of
neglected infrastructure -- sewer, water, electrical infrastructure,
telecommunications infrastructure -- with an eye on creating a base upon which
an economic structure could be built.

Our focus is not on infrastructure and the reconstruction of
infrastructure. Much has been written about that. Our focus is on how do we
create and revitalize sustained employment for the Iraqi people? We've talked

about before, in this forum and in a variety of other media outlets, the fact that this population suffers from an unemployment and underemployment rate in excess of 50 percent. And wherever you're from -- and I see we have a wide variety of participants in the call today -- I would challenge you to imagine your local population experiencing 50 percent unemployment.

I'm pretty certain that in the United States or any other society, in excess of 50 percent employment -- unemployment and underemployment would generate great social unrest, violence, many of the things that they're experiencing here in Iraq.

Obviously, Iraq faces a number of other issues, terrorist networks that are preying on this economic distress. And so we believe, in support of General Petraeus's counterinsurgency vision, that augmenting security establishment with rapid economic development, restoration of employment and hope to the Iraqi people directly undermines the ability of terror networks and insurgents to gain sympathy from local populations and makes the job of securing this country vastly, vastly easier.

Our progress to date. We had already announced the restart of six factories in Iraq in a variety of areas. This Sunday we'll be holding a joint press conference with Iraqi government officials where we will announce the reopening of additional factories.

We recently announced the first retail orders for clothing manufactured in an Iraqi clothing factory. Iraqi clothing factories used to supply, obviously, the Iraqi population but are in very good condition. And given that the clothing industry is a global industry and much clothing in the United States is sourced externally, we are seeing a significant positive response to buying clothing from Iraqi firms (that have booked ?) first orders here.

We hosted a group of executives. We've done this several times, bringing the external business community to Iraq so that the Iraqi business community can engage in commercial discussions with their peers and counterparts in the global economy. Most recently we have major corporations, including companies familiar to you, like Caterpillar and Cummins Diesel and Mercedes, were here in Iraq engaging with heavy industry in discussions of how to take advantage of skilled workforce here to sustain both Iraqi government organizations that have large fleets of vehicles and need for generators and things like this, but also to support the private transportation infrastructure in terms of trucks and tractors and just a host of other different mechanical equipment that those companies and many others are interested in continuing to support and sell here in Iraq.

The other thing that we've announced recently is the partnership with our State Department and the U.S. Treasury Department to assist in the ability of the Iraqi government to execute contracts, to enable them to better execute their own budget. This has been an area of great interest in the United States -- how can we assist in helping the Iraqis execute their budget more quickly so that Iraqi funds are flowing into the provinces and down at the local level? We have a team of people working in partnership with the Treasury Department and at the State Department engaging directly at the Iraqi local level with government officials to streamline, review, document very clear but rapidly executable contracting processes and mechanisms so that the Iraqis are able to execute their budget more quickly, and that project is really taking off, and we're excited about that.

Finally, we held a group meeting here last Sunday. The Congress recently appropriated \$50 million to our effort, our task force effort to help accelerate the restart of Iraqi industries. We brought over 30 plant managers from around Iraq to Baghdad last weekend, we reviewed with them our initial distribution of funds to accelerate the restart of Iraqi factories and the re-employment of skilled laborers and skilled workforce engineers and managers in Iraq all over the country. And we brought those managers here, and we also talked about financial transparency.

We have CPAs from Grant Thornton -- the international accounting firm Grant Thornton LLC, part of our team here working to ensure that all of these transactions we execute to acquire materiel, to train a workforce, to acquire raw material, whatever the need is to help restart a factory, that the financial management of that is absolutely transparent with auditable accounting oversight provided by, again, CPAs embedded in our team here with us in Baghdad working closely with the Iraqi factory managers we're partnered with.

So those are some high-level updates and thoughts. I mean, I'm sure we'll have a lot of questions, and I don't want to talk anymore so we get time for questions, and I'll open up the phone. And anyone who has one, we'll lead off.

MR. HOLT: Okay. Thank you very much, sir. We'll go in the order in which you called in, and when I call on you, just state your name and your publication, I would appreciate it.

Grim, you were first. Let's start with you.

Q Good morning. This is Grim from blackfive.net. I want to ask you a little bit -- you mentioned a couple of the companies, Caterpillar was one. We spoke with one of the -- let me, see -- I won't try to remember the name off the top of my head.

But we spoke with a gentleman from the Army Corps of Engineers about the infrastructure projects, particularly electricity, a few weeks ago. And he said that they had brought in a lot of turbines that were powered by diesel fuel, which Iraq apparently does not find internally. Are you planning on addressing that issue in order to make it possible for places like Caterpillar, the diesel firm you mentioned and whatnot, to sue their -- any products they might make in Iraq a little bit more efficiently?

MR. BRINKLEY: Sure. This is a space that I don't operate in directly. But I'll tell you what I've learned because we depend heavily on electricity, and the issue of electricity in our restarting of factories has required us to get pretty knowledgeable about this space and the challenges you describe in terms of diesel. And it's really not just diesel, it's all refined petroleum products inside Iraq.

Iraq has a significant, but aging, infrastructure for just the access to petroleum, raw petroleum, and exports the vast majority of that. There is relatively little refining capacity in the country, and this is one of the reasons that there's great interest in the hydrocarbon law and, obviously, the Iraqi government feels a significant amount of pressure to get the hydrocarbon law passed because, until that is passed, investment in hydrocarbon refining is not going to take place in any kind of significant way here.

The -- what we do have a significant amount of in Iraq today is heavy fuel oil; in other words, merely unrefined petroleum. That's available in excess, but the global market for heavy fuel oil generators is -- they're in great demand right now, and there's a shortage of heavy fuel oil generators in the world. And obviously, that translates into shortages in Iraq.

So we're not working directly with the petroleum sector, we're working in the industrial sectors -- non petroleum-related industrial sectors -- because those are really dependent upon the final resolution of the hydrocarbon law and associated revenue sharing among the different groups here in Iraq. And that -- obviously, I don't need to talk about that, that gets a lot of attention. We are certainly interested in seeing that industry develop, and as it develops, electricity generation will start to really mature here. And that will assist us in some areas of the country where electricity is the primary impediment to getting factories re-started.

Q Thank you.

MR. HOLT: Andrew Lubin.

Q Hello. Andrew Lubin from OnPoint. Good afternoon. How are you doing today?

MR. BRINKLEY: I'm great.

Q Good. We were -- I was talking, sir, last week to Mr. Marks out of the EPRT team at Ramadi because, I guess, they'll be opening up the ceramics end of that big plant in October-ish. Where does a plant like that get trade finance from? How do they pay the workers? Where are they going to get money for the raw materials? Who's going to run it?

MR. BRINKLEY: Sure. Okay, so there's two or three questions there. I'll pick them all off.

First thing is, that factory -- we announced its reopening back in March, and 150 of the 300-odd workers went back to work -- engineers, production managers, production maintenance experts. And what they've been doing is getting that line tuned up. And the hope is, the expectation, I would say, is that by October, that factory's back to production and all of the workers come back to work.

The finding -- now, that's a state-owned factory, so that is owned by the government of Iraq as most of the factories here officially are. What it gets in terms of financing from the government of Iraq is the funding for the salaries of the employees.

What it gets in terms of financing from the government of Iraq is the funding for the salaries of the employees.

That's an interesting factory, and we've talked about it before in a variety of venues, and actually had been written up on the front page of the New York Times with some photographs a few months ago, because there was this factory sitting in the middle of Ramadi, which for many months was an area of great unrest in the country. There's been tremendous progress by Multinational Forces-West partnering with the tribal leaders there to secure Ramadi. But at the time, I mean for many months Ramadi was in great unrest, and the area around that factory was not secure, and yet that factory was never touched, was not

looted or damaged, and -- in spite of the fact that it had brand- new Italian-made ceramic tile and bathroom fixture manufacturing equipment.

What we've had to do is -- I mentioned electricity earlier. We're partnering with the U.S. Marine Corps to acquire generators because one of the impediments to getting full production restored has been the availability of sustained electricity. And many of the factories in Al Anbar, including that one, require a sustained power supply. When you're manufacturing ceramics, if you lose electricity halfway through the process, you've essentially got scrap. Everything has to be restarted and you start from scratch.

Q Then your --

MR. BRINKLEY: Yes, please.

Q Yeah, and then your furnaces freeze up, too.

MR. BRINKLEY: Exactly. Yeah. (Line noise.) Are you there?

Q Yeah, I'm here.

MR. BRINKLEY: Okay. I didn't know if I dropped you.

So anyway, long story short, the financing for the cost of the generators and the investments necessary to restart the factory are coming in partnership with the U.S. Marine Corps and ourselves. Minister of Industry had no budget in 2007 for capital investments in factories as a carry-over prior policy.

But as we get that factory restarted, we've identified its customer base; they're going to be able to sell everything they can make. We're confident about that. And as they get a revenue stream reestablished, they'll be able to sustain their own capital investments through just a normal profit-and-loss type structure. And at that point the effort with the Minister of Industry will begin to look at privatizing that factory.

Q Okay. Great, thank you.

MR. HOLT: Bruce.

Q Yeah. Question about -- you stated that you're really working with the Iraqis to execute contracts and budgets, to streamline that; in our discussions with PRTs and EPRT leaders, they are essentially talking about doing the same thing at their level. Could you give me an idea of how that -- how you're integrating that effort between the two sides, the State and Defense?

MR. BRINKLEY: Sure. I think there's two levels of integration to talk about. One is our own intergovernmental integration, and I mentioned to you this effort of procurement assistance is a collaboration, a very tight collaboration with Treasury and State, but it's at the federal level. So we're working to assist the central government in its ability to execute contracts and to make that happen, and we're beginning to then, in support of the PRTs, field the same sort of resources to work at the provincial level.

And so just as, you know, you got federal, state and local government in the United States, well, we have the central government, we have provincial governments, and you have municipal governments here in Iraq, all of which, as a

result of a variety of issues, including de-Ba'athification and other things, lost their bureaucratic capacity to just execute the most basic function of government, which is the collection of, you know, revenue and the execution of spending.

And so your point about the PRTs -- the PRTs are extremely focused on how they rebuild provincial-level governmental capacity to execute the budget that flows to them from the central government. And we're working now with the central government and beginning to augment and support the PRTs with resources to help them as they work at the provincial level, and then eventually this also must happen at the municipal level.

Q Great. Thanks very much.

MR. HOLT: And David?

Q Hi. This is David Axe from Aviation Week. Thanks for taking the time to do this this morning. Can you tell me who is that customer for the Iraqi clothing factory that you said got that order? MR. BRINKLEY: You bet. It's a company in Memphis, Tennessee, called Shelmar. It's a retailer. They've got 50 stores in seven states, I think mostly in the Southeast, and they placed an initial small order on that factory that will grow into additional orders.

Our intent in all of these orders from international businesses, we're actually requesting, start small and let the factories earn additional business. And I was just in Mosul at the Ready-to-Wear Factory yesterday, and they are very excited; I'm very confident they will meet the expectations Shelmar has and grow a relationship there, and I expect hopefully we will see additional retail relationships emerge with Iraqi companies here in the upcoming months.

Q Can you spell for me the name of the Tennessee company? I'm not quite catching it.

MR. BRINKLEY: Yeah, you bet. Shelmar -- S-H-E-L-M-A-R -- Shelmar.

Q Shelmar, okay. And one more thing. In a past conversation here at the -- with this bloggers roundtable, we'd heard that there was a problem with foreign companies flooding Iraq with cheap goods and driving Iraqi businesses out of business. Is that still a problem?

MR. BRINKLEY: It is true that since 2003, the borders have essentially been open. And I've actually -- you know, it's a key area of focus for our mission here, State Department, working with the Iraqi government, to put in place just standard import processes to ensure that what comes into the country is aligned with whatever the trade policy is for the government of Iraq.

That is a significant problem.

Massive amounts of international, you know, low-cost international goods, including clothing, obviously electronics -- that's no different than it is in the United States. Most electronics are pouring in from outside.

But those aren't competitive industries with Iraq, but it's a big problem in the area of textiles. It's a really, in my opinion, significant challenge in agriculture: produce, grain, things of this nature, which Iraq can naturally compete in. There's tremendous agricultural capacity here that lies either dormant or in a depressed state. It's going -- it's struggling to get

off the ground or get back on its feet as a result of this in-flow of foodstuffs and grains and produce into the country. And this is a key focal area, I want to emphasize, for Ambassador Crocker and the leadership here, in partnership with the Iraqi government. But it is a challenge.

Q Thank you.

MR. HOLT: And Jarred.

Q Yes, sir, thank you for taking time to speak with us.

We see tons of good information, especially out of your brief here. But our question is, how do we then get that inserted into the public debate back in Washington and in the country? In particular, my question would be, will you be able to get a major bulk of the things you're reporting into General Petraeus's report in September, where we can point to not just battlefield success but local political success and local economic success as well?

MR. BRINKLEY: Well, I think the -- Commanding General Petraeus has a full plate here of things, and we're a part of an overall strategy that he's crafted, and we're one of his command resources. And I know that, you know, his counterinsurgency vision includes economic development as a key aspect of stabilization and denial of terrorists with, you know, with their -- what they feed off of, which is unrest and civil strife. And so I can't speak for what his testimony will include. But we certainly believe our progress is aligned to and again a key element of his overarching strategy.

In terms of the American public and how you get a message or stories like this, I just think we cannot present enough images to the American people of the Iraqis as they are, not as we tend to caricature them as, and I'll give you a couple of examples. I was up in Northern Nineveh Province yesterday with my team. We were -- I mentioned we were at Mosul at this clothing factory, but we were also at a pharmaceutical factory. And that pharmaceutical factory was remarkable. These people were manufacturing sophisticated medicines and drugs, antibiotics, cancer chemotherapy solutions, over-the-counter medications -- and modern equipment, you know, the Iraqi, you know, workforce, lab-coat-wearing, technical workforce.

It was a factory that could have been in, you know, up in Maryland outside of D.C., I mean in terms of the nature of the production equipment and the work that was going on there, and I think that that's just an image that America doesn't have when it thinks about today. Most of the images we're confronted with are images of violence and great hardship and difficulty and sectarian strife, and the reality is far more complex. The reality is these are folks who get up in the morning, and they go to jobs that are not that dissimilar to what the jobs are we do in America. And those jobs have been deprived in the past few years, but I think by restoring them we helped rebuild normal life, and you rebuild normal life and you give people back a sense of normalcy. And I think the pressure that is applied all layers, both of the Iraqi government as well as our forces here, just get a lot easier to deal with.

And so our intent is to just continue to feed images and reality of Iraqi life, and I'm not trying to make this sound easy, this is extremely difficult to restart factories and put people back to work. But I think America, you know, benefits when it sees Iraq as it is, not as necessarily our character tends to think of it based on the images of violence that we see too frequently.

MR. HOLT: Okay, thank you, sir.

And Paul Silva. (Short pause.) Paul, are you still with us? All right, is there anyone I missed?

Q Yes, Jack, this is Charlie Quidnunc.

MR. HOLT: Hey, Charlie, okay.

Q Yes, Mr. Brinkley, this is Charlie Quidnunc at the Wizbang Podcast. My question deals with Admiral Mullen at his confirmation hearing. He talked about -- (off mike) -- military, economic and political. Do we have enough resources working on the economic piece, because we're having great success apparently against the insurgents on a military basis?

MR. BRINKLEY: You know, I don't think we can have enough, so it probably wouldn't matter how much we have on the economic. I would argue we should have more, and I'll do it from the following perspective. The United States of America's economy is in excess of \$10 trillion a year. The Iraqi economy -- depending on who's statistics you believe and it's most petroleum revenue -- is just over \$40 billion a year. A tiny percentage of our economic activity that today flows to places like China and India and Indonesia and other parts of the world -- and the economic partnerships that we've established in those countries, and supply relationships -- a tiny percentage of that relationship being established here with Iraq, and we uplift the lives of every Iraqi citizen. We put every skilled worker back to work.

We deprive terrorists of many things: one, a sympathetic access to people who are frustrated with economic conditions, but also we deprive them of one of their key messages, which is that, you know, the Arab world and the Middle East has been held back; where the rest of the world is moving forward economically there is some sort of an underlying desire to hold back the Arab world. And that's a message that the terrorist networks project into this part of the world frequently.

And I think as an economy, there's nothing more important that we can do than figure out how to leverage a \$10 trillion economic engine to help uplift the livelihoods of skilled workers who are just as capable of building products for us as other parts of the world where we channel demand today. I'm not asking us to send a single American job overseas. I'm just saying we're already doing tremendous amounts of trade globally, and I can think of no better strategic intent than to channel some of that trade into this country.

So, pretty much whatever I -- whatever we're doing, I would argue we should do more. I'm very pleased with the team we have. I'm very pleased with the response we've had from the business community. It's been inspiring to see how they've responded to our appeal for help. But we need to do much more. And I think we need to do much more here in Iraq and I think we need to do much more in the region.

MR. HOLT: All right, thank you, sir.

Any follow-up questions? We got just a few minutes left.

Q Absolutely. Andrew Lubin here, Paul. Two questions, my normal double-header. Is the aluminum plant in Mosul still operating, the big

extruder? And you mentioned the Caterpillar, Cummins, Mercedes people coming around. What provinces are they looking at setting up and are working in?

MR. BRINKLEY: I can't speak to the aluminum plant in Mosul. I've not been to that particular factory. We're working in the ready-to-wear factory there and the pharmaceuticals plant and a couple other sites nearby, but I have not been to that aluminum plant so I don't have an answer. I can get that for you as a follow-up, if you'd like me to, the state of the plant.

Q Yes, please, because they used to have about a hundred, hundred and a half people working there. That was a state-owned enterprise that had a huge workforce.

MR. BRINKLEY: Right. I don't know the answer, but I will dig that up for you. That's one we haven't been to yet. Usually our command directs us to sites that are in distress and need assistance, and so that's probably a sign that that one is up and running. But I'll find out.

Second question is where are these industrial companies looking. I mean one of our, I believe, success stories here has been the industrial works in Iskandariyah, which is in Babil province, I would say about 60 kilometers south of Baghdad.

That was the first factory I personally toured a little over a year ago, and at the time was running no production, had a small workforce coming in just to maintain its skillset; a couple of hundred people rotating in and out; a plant manager with a tremendous amount of vision and a great amount of frustration. That factory's now building buses, trailers, it's won some international orders from companies we brought here for manufacturing tanker truck trailers; it's manufacturing trucks. And so those companies -- it also -- pipeline equipment, refining equipment, some transportation infrastructure.

So it was kind of a classic example of we restarted that factory by placing a few government orders for armored vehicles for the Iraqi military. And then, as they got running again, we brought other sources of demand to see the factory, and that plant manager's taken advantage of that and is growing his business. He now has over 1,100 people working today in that factory. And it's a great success story.

So that's one of the factories that Caterpillar and Cummins and Mercedes were looking at as a potential place to initially start some repair operations for the fleets that they already have here, be it generators or other heavy equipment or trucks and things like that. And then potentially expand license agreements over time.

Those deals will take time to negotiate. In my old, prior life, it typically takes you a year to ramp a new supplier in normal circumstances. This being Iraq, circumstances are not normal. We're trying to accelerate that timeline. But we'll see how it plays out. But the interest and the willingness to come and see and have serious discussions about transitioning and putting joint ventures in and take advantage of the skilled workforce here was very serious by those companies. And I expect things to emerge over time as those relationships get forged.

Q Okay, thank you.

MR. HOLT. Okay, Mr. Paul Brinkley, deputy undersecretary of Defense for Business Transformation with us on the Blogger's Roundtable. And we're out of time here, sir. Do you have any closing comments for us?

MR. BRINKLEY: No. I just thank you guys for your time. I appreciate everything you do in terms of being a channel of information to the American people about what's really going on here in Iraq. And, again, I welcome your comments and questions anytime you have them. Happy to help you guys in your critical role.

MR. HOLT: Okay, thank you, sir, very much for spending some time with us this morning. Hopefully, we can do it again in a few weeks and get some updates and see what else is transpiring in Iraq. And we appreciate your time, sir. Thank you very much.

MR. BRINKLEY: Thank you. Out here, guys. Take care.

END.